



District of Columbia

FY 2012 DC Council Retreat

February 14, 2012

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District of Columbia

Presentation Agenda

- FY 2011 CAFR Results
- District Economy and Revenue Estimates
- FY 2012 Update
- FY 2013 Budget
 - Current Service Levels
 - Budget Gap
- Debt Position



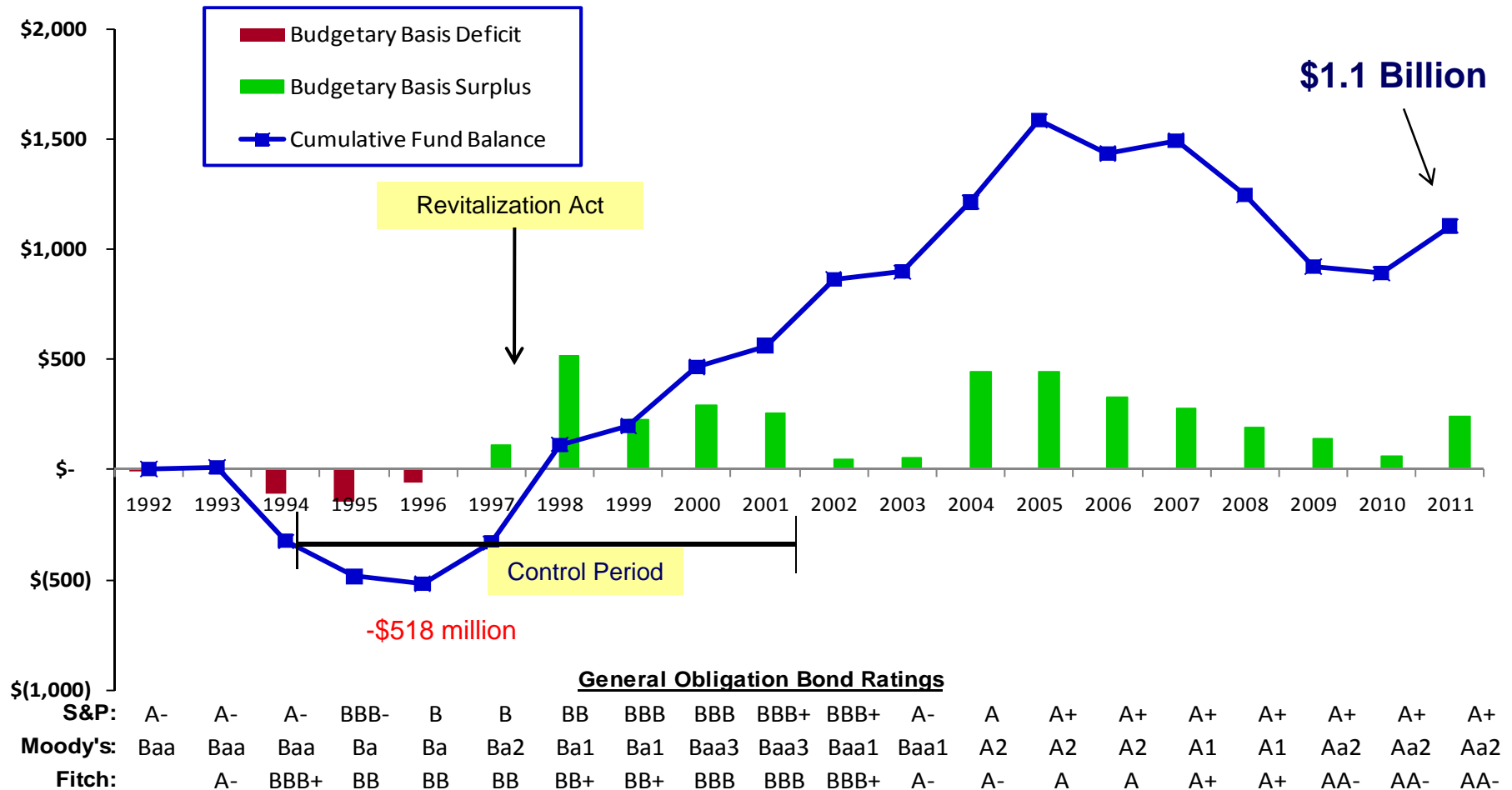
District of Columbia

FY 2011 CAFR



District of Columbia

District of Columbia Surplus and Bond Rating History



Income Tax Secured Revenue Bonds: S&P: AAA Moody's: Aa1 Fitch: AA+



District of Columbia

Composition of FY 2011 Surplus

(\$ in millions)

COMPOSITION OF SURPLUS, FY 2011

	Local Funds	O-Type	Total General Fund
Operating margin in revised budget	1	-	1
Higher/Lower revenues, other than use of fund balance	73	65	138
Higher/Lower use of fund balance	6	(56)	(50)
Lower spending	<u>87</u>	<u>64</u>	<u>151</u>
Actual Operating margin	166	73	240

Note: Details may not add to totals due to rounding.



District of Columbia

History of Revenue Estimates, FY 2011 and FY 2012

(\$ in millions)

	<u>FY 2011</u>	<u>FY 2012</u>	
Feb-10	\$ 5,029.1	\$ 5,120.8	Feb 2010 Estimate (on which 2011 Original Budget was based)
Jun-10	0	0	No changes
Sep-10	101.4	81.3	Legislative and Administrative Adjustments
	-99.8	-38.3	Revenue Estimate
Dec-10	0	0	No changes
Feb-11	35.3	83.4	Legislative and Administrative Adjustments
	3.5	105.4	Revenue Estimate
Jun-11	107.1	77.2	Revenue Estimate
Sep-11	-1.2	197.3	Legislative Adjustments
	89.1	0.9	Revenue Estimate
Dec-11	-	42.2	Revenue Estimate
	<u>\$ 235.4</u>	<u>\$ 549.4</u>	Total change since Original FY 2011 Budget



District of Columbia

Composition of Underspending by Agency FY 2011

(\$ in millions)

Agency	Revised Budget	Expenditures	\$ Variance	% Variance
OFFICE FOR NON-PUBLIC TUITION	\$ 145.8	\$ 135.2	\$ 10.6	7.3%
STATE SUPERINTENDENT OF EDUCATION (OSSE)	106.6	100.9	5.7	5.3%
DISTRICT RETIREE HEALTH CONTRIBUTION	98.7	94.2	4.5	4.6%
DEPARTMENT OF HUMAN SERVICES	140.2	136.0	4.2	3.0%
All Others	\$ 4,900.5	\$ 4,853.3	\$ 47.1	1.0%
Local Funds, Total	\$ 5,391.8	\$ 5,319.7	\$ 72.1	1.3%
Dedicated Taxes, Total	\$ 344.6	\$ 330.1	\$ 14.5	4.2%
Subtotal, Local and Dedicated Taxes	\$ 5,736.4	\$ 5,649.8	\$ 86.6	1.5%
DEPARTMENT OF EMPLOYMENT SERVICES	\$ 36.2	\$ 21.8	\$ 14.5	40.0%
DISTRICT DEPARTMENT OF THE ENVIRONMENT	30.2	25.1	5.1	16.9%
OFFICE OF UNIFIED COMMUNICATIONS	18.9	13.8	5.1	26.9%
METROPOLITAN POLICE DEPARTMENT	31.9	27.5	4.4	13.8%
All Others	\$ 363.6	\$ 328.6	35.1	9.6%
O-type, Total	\$ 480.8	\$ 416.7	\$ 64.1	13.3%
Total Local, Dedicated Taxes, and O-Type	\$ 6,217.2	\$ 6,066.5	\$ 150.7	2.4%



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Economic Update



District of Columbia

Summary of December 2011 Revenue Estimate

(\$ in millions)

Local Source, General Fund Revenue Estimate	Actual	Estimate		Projected	
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
September 2011 Forecast		5,627.9	5,773.8	5,948.3	6,134.1
Change from prior forecast		42.2	0.3	(6.0)	(36.3)
Change due to federal sequestration		-	(46.7)	(86.1)	(93.5)
<i>Total Changes From September</i>		42.2	(46.4)	(92.1)	(129.8)
December 2011 Revenue Estimate	5,321.7	5,670.1	5,727.4	5,856.2	6,004.3
<i>Percent growth over previous year</i>	<i>4.8%</i>	<i>6.5%</i>	<i>1.0%</i>	<i>2.2%</i>	<i>2.5%</i>

Next Revenue Estimate: Within the next two weeks



District of Columbia

Summary of Changes – Fiscal Years 2012 and 2013

(\$ in millions)

Revenue Source (\$millions)	Estimate for FY 2012		Estimate for FY 2013	
	Dec-11	Change from Sept. Estimate	Dec-11	Change from Sept. Estimate
Property	\$ 2,212	\$ -	\$ 2,309	\$ (0)
Property (net of TIF/PILOT)	1,919	0	2,002	0
Deed taxes (net of transfers to Housing Production Trust) & Estate	293	0	307	0
Income	\$ 1,813	\$ 31	\$ 1,810	\$ (7)
Individual Income	1,417		1,399	
<i>Withholding</i>	1,270		1,332	
<i>Nonwithholding</i>	147		67	
Business Income (corp. franchise and UB tax)	397		412	
Sales, excise and gross receipts	\$ 1,162	\$ 11	\$ 1,149	\$ (46)
Sales (net of convention center transfer, TIF, parking tax transfer to DDOT, ballpark sales tax) and Excise	911		898	
Gross receipts (net of transfers)	251		252	
Non-tax and Lottery	\$ 483	\$ 0	\$ 460	\$ 7
Non-tax	420		395	
Lottery	63		65	
Total	\$ 5,670	\$ 42	\$ 5,727	\$ (47)



District of Columbia

Impact of Federal Sequestration on DC Economy and Revenue

Federal government is a key driver of the DC economy

- There are about 210,000 federal civilian employees in DC, accounting for about 29% of all wage and salary employment in DC and 35% of the wages and salaries paid in the city.
- An estimated 45,000 DC residents are employed by the federal government, representing about 15% of all employed DC residents.
- In FY 2010 the Federal government spent a total of \$62 billion in DC in salaries and wages, procurement, grants, retirement and other benefits, and other direct payments, about 60% of DC's gross state product. In comparison, federal spending is about 33% of gross state product in MD and 32% in VA.

Given the District's exposure to federal spending and employment, its economy and revenue will be seriously impacted by federal sequestration

- According to an analysis by the Bipartisan Policy Center, the sequester provision, should it be implemented in its current form, would result in an 8.5% reduction in federal defense and non-defense discretionary spending.
- The decrease in federal employment will affect income tax withholding and sales taxes almost immediately. In FY 2014, the cuts in procurement will affect corporate income and deed taxes.
- **Under this scenario federal sequestration would reduce the District's revenue by an estimated \$47 million in FY 2013, \$86 million in FY 2014 and \$93 million in FY 2015.**



Implications for FY 2013 Budget

District of Columbia

Sequestration (cont'd)

- Based on preliminary analysis of the exemptions as currently written, using FY 2010 (non-ARRA) grants data, this means a reduction of \$42 million to \$55 million in the District's federal grants, which totaled over \$2 billion. See table below.

(\$ in millions)		
Total District Grants	100%	\$2,285
Less: Medicaid		\$1,321
Less: Other exempt programs (such as TANF, Highway Construction, State Children's Health Insurance Program)		\$ 358
	73%	<u>\$1,679</u>
Equals: Total subject to sequestration	27%	\$606
7% of total subject to sequestration		\$42
9% of total subject to sequestration		\$55
Notes: Data is based on expenditures, not award amounts. Excludes Unemployment Insurance, which is not part of the General Fund. Assumes full year – the FY 2013 effect might be only 75 percent: \$41M		



District of Columbia

Current State of the District's Economy

OVERVIEW: The District's economy is caught between slowing on the federal side and modest growth on the private sector side.

Labor Markets and Personal Income

- December showed some marginal improvement in the District's labor market.
- The District's unemployment rate for December fell from 10.6 percent last month to 10.4 percent, and resident employment was 0.1 percent higher.
- Private sector employment gain of 1.2% more than offset the 0.8% loss in the federal sector.

Housing

- Growth in housing has slowed in recent months.
- Single family sales for the 3-month period ending December 2011 were down 14.3% from a year ago, and the average selling price was 6.3% lower.
- Condominium sales were up 3.5%, but average prices were 2.5% lower.

Commercial Office Market

- In the quarter ending December, occupied office space rose by 1.0% from the prior year. At the same time, the commercial office vacancy rate fell to 8.4% (including sublet), still well below the metropolitan area average of 12.1%.

Hospitality Industry

- The hospitality sector has picked up recently.
- For the 3-month period ending December, the average room-rate for hotels was 1.2% lower than for the same period a year earlier.
- However, the number of hotel room-days sold was up 7.0% from a year earlier and revenues from room sales were up 5.7%.



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Fiscal Year 2012 Update



District of Columbia

FY 2012 Spending Pressures

(\$ in millions)

FY 2012 SPENDING PRESSURES (\$ in millions)			
Appropriation Title	Agency	Description of Pressure	Amount
Governmental Direction and Support	Board of Elections and Ethics	Ward 5 Special election	\$ 0.3
		Subtotal	\$ 0.3
	Department of General Services	Water and sewer fixed costs	\$ 2.6
		Fuel costs	2.4
		Fixed cost utilities incorrectly assigned to DCPS facilities that are owned instead by DGS	0.4
		Transition maintenance and utility costs for Lincoln Theatre	0.2
		DPR facility maintenance	1.5
		FEMS facility maintenance	1.0
		DCOA facility maintenance	0.9
		Subtotal	\$ 9.0
Public Education System	District of Columbia Public Schools	Loss of federal payment	\$ 4.5
		Food service program deficit	12.0
		Fund after school programs	3.4
		Non-instructional staff costs	5.3
		Subtotal	\$ 25.2
Human Support Services	Department of Health Care Finance	Utilization and complex care cost increase	\$ 6.0
		Alliance DSH disallowance	4.2
		Subtotal	\$ 10.2
Total, Spending Pressures			\$ 44.7



District of Columbia

FY 2013 Current Services Funding Level (CSFL) and Budget Gap



District of Columbia

Current Services Funding Level (CSFL)

Definition

- The CSFL budget is a Local funds ONLY representation of the cost of operating District agencies, before consideration of policy decisions.
- The CSFL reflects changes from the FY 2012 Approved Budget across multiple programs and estimates how much it would cost an agency to continue its current programs and operations into the following fiscal year.



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FY 2013 Budget Gap

FY 2013 REVENUE PROJECTIONS vs. FY 2013 CURRENT SERVICES FUNDING LEVEL

FY 2013 Current Services Funding Level	\$5,870.1
FY 2013 Total Revenue Projections	\$5,719.4
<u>Total Gap In Funding</u>	<u>(\$150.6)</u>

Note: Numbers may not add due to rounding.

The FY 2013 CSFL budget of \$5.87 billion represents an increase of 4.8% over the FY 2012 recurring budget.



District of Columbia

General Assumptions - FY 2013 CSFL

The following are the calculations for the general assumptions that were applied to nearly all District agencies in the FY 2013 CSFL:

1. **Removal of One-Time items** – All FY 2012 one-time items were removed from the CSFL.
2. **Personal Services Growth Factor:** 0.5 percent year-over-year increase to all Personal Services (PS) costs (except Fringe Benefits) for step increases anticipated for FY 2013.
3. **Fringe Benefit Rate Adjustments** – Fringe benefit rates were calculated using trend and comparative analysis for each agency.
4. **Consumer Price Index (CPI) Growth Factor: 2.0 percent year-over-year increase in Nonpersonal Services (NPS) costs (supplies, other services and charges, contractual services and equipment)** – The 2.0 percent inflation factor is based on the seasonally adjusted CPI for the Metropolitan DC region, provided by the Office of Revenue Analysis.



District of Columbia

Specific Assumptions - FY 2013 CSFL

The following are specific assumptions used to develop the FY 2013 CSFL:

1. **Recurring Budget Items** – Where applicable, recurring budget items were identified to adjust CSGs 13 (Additional Gross Pay) and 15 (Overtime Pay).
2. **Fixed Cost Inflation Factor: Year-over-year increase to Fixed Costs (rent, telecom, fuel, etc.)** – For the FY 2013 CSFL, these types of fixed costs were derived from cost estimates provided by the Department of General Services. Fleet fixed cost was provided by the Department of Public Works, telecommunication estimates were provided by Office of Finance and Resource Management (OFRM) and IT cost estimates were provided by the Office of the Chief Technology Officer (OCTO).
3. **Medicaid Growth Factor: Percent Increase in Medicaid** – The Medicaid growth factor rate of 8.1 percent was used to calculate baseline funding for Medicaid in the FY 2013 CSFL. This rate adjustment was provided by the Department of Healthcare Finance.
4. **Student Funding Formula Inflation Factor** – The funding formula was adjusted by the 2.0% CPI to account for inflationary costs in the District of Columbia Public Schools and Public Charter Schools.
5. **Debt Service Adjustments** – Projected adjustments were provided by the Office of Finance and Treasury
6. **Other Adjustments** - These adjustments were unique to a particular agency and did not meet the criteria of the other adjustment scenarios . These changes may include the operating impact of capital, actuarial studies, and legislative mandates.



District of Columbia

Detail of CSFL for FY 2013

FY 2012 Approved Budget	\$5,618.3M
Removal of One-Time	<u>\$ (15.6M)</u>
FY 2012 Recurring Budget	\$5,602.3M
Adjustments to Fringe Benefits	\$ 16.7M
Consumer Price Index	\$ 15.4M
Personal Services Growth (includes 0.5% for step increases)	\$ 6.0M
Fixed Costs Growth	\$ 33.6M
Student Funding Formula (2.0% inflation)	\$ 21.9M
Debt Service	\$ 40.4M
Recurring Budget Items (base retention pay)	\$ 21.9M
Medicaid (8.1% growth rate)	\$ 50.6M
Other Adjustments (operating impact of capital)	<u>\$ 61.1M</u>
Total Adjustments	\$ 267.7M
• FY 2013 CSFL	\$5,870.1M

Note: Numbers may not add due to rounding.



District of Columbia

FY 2013 CSFL: Major Cost Drivers - Summary

Mandatory CSFL Adjustments	\$M Change	% of Total Growth
Department of Health Care Finance (Medicaid Growth)	\$50.5	19%
Pay-As-You-Go Capital (Legislative Requirement)	49.8	19%
Repayment of Loans and Interest	34.6	13%
Department of General Services (Fixed Cost)	33.5	13%
DC Public Schools (2.0% CPI - UPSFF)	12.2	5%
DC Public Charter Schools (2.0% CPI - UPSFF)	9.7	4%
Washington Metropolitan Area Transit Authority	3.0	1%
Subtotal - Mandatory CSFL Adjustments	\$193.3	72%



District of Columbia

FY 2013 CSFL: Major Cost Drivers – Summary (continued)

Other CSFL Adjustments	\$M Change	% of Total Growth
Recurring Budget Items		
Metropolitan Police Department (Base Retention Pay, cover 50 officers on COPS grant)	\$12.0	4%
Department of Youth Rehabilitation Services (Additional Gross Pay and Disallowed Medicaid costs)	3.5	1%
Office of the Attorney General (Federal matching requirements)	1.9	1%
Department of Mental Health (Overtime)	1.7	1%
Fire and Emergency Services Department (Longevity Pay)	1.7	1%
All others	1.2	0%
Operating Impact of Capital		
Office of the Chief Technology Officer	\$5.1	2%
District of Columbia Public Library	4.0	1%
Department of General Services	0.4	0%
Consumer Price Index (CPI)		
All affected agencies	\$15.4	6%
Personal Services Growth		
All affected agencies (fringe benefits)	\$16.7	6%
All affected agencies (0.5 percent growth factor for step increases)	6.0	2%
Other Adjustments -	4.9	2%
Subtotal - Other CSFL Adjustments	\$74.5	28%
Mandatory CSFL Adjustments from prior page	\$193.3	72%
Total - CSFL Adjustments	\$267.8	100%



District of Columbia Federal Payments

District of Columbia

Agency	FY 2012 Approved	FY 2013 President's Budget	Variance:
DC Public Schools- School improvement	\$ 20,000,000	\$ 36,600,000	\$ 16,600,000
DC Public Schools- Jump Start Public Education	\$ -	\$ -	\$ -
DCPS subtotal	\$ 20,000,000	\$ 36,600,000	\$ 16,600,000
OSSE- Resident Tuition Support	\$ 30,000,000	\$ 35,100,000	\$ 5,100,000
OSSE- Charter School	\$ 20,000,000	\$ 23,400,000	\$ 3,400,000
OSSE subtotal	\$ 50,000,000	\$ 58,500,000	\$ 8,500,000
Emergency Planning and Security	\$ 14,900,000	\$ 24,700,000	\$ 9,800,000
DC National Guard- retention and college access	\$ 375,000	\$ 500,000	\$ 125,000
Criminal Justice Coordinating Council- operations	\$ 1,800,000	\$ 1,800,000	\$ -
Commission on Judicial Disabilities & Tenure- operations	\$ 295,000	\$ 295,000	\$ -
Judicial Nomination Commission- operations	\$ 205,000	\$ 205,000	\$ -
Department of Human Services- supportive housing programs	\$ -	\$ -	\$ -
Department of Health- HIV/AIDS prevention	\$ 5,000,000	\$ 5,000,000	\$ -
Dept of Youth Rehab Services	\$ -	\$ -	\$ -
Forensics Lab (requires a 100% local match)	\$ -	\$ -	\$ -
St Elizabeths redevelopment	\$ -	\$ 9,800,000	\$ 9,800,000
UDC - support community college	\$ -	\$ -	\$ -
D.C. Commission on the Arts and Humanities	\$ -	\$ 2,500,000	\$ 2,500,000
Job Training Program	\$ -	\$ 2,000,000	\$ 2,000,000
total District Government	\$ 92,575,000	\$ 141,900,000	\$ 49,325,000
WASA	\$ 15,000,000	\$ 11,500,000	\$ (3,500,000)
US Dept of Ed Scholarships for Opportunity & Results Act	\$ 20,000,000	\$ -	\$ (20,000,000)
Grand total	\$ 127,575,000	\$ 153,400,000	\$ 25,825,000
	<i>District only</i>		35%
	<i>Total less Courts</i>		17%



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Debt Position

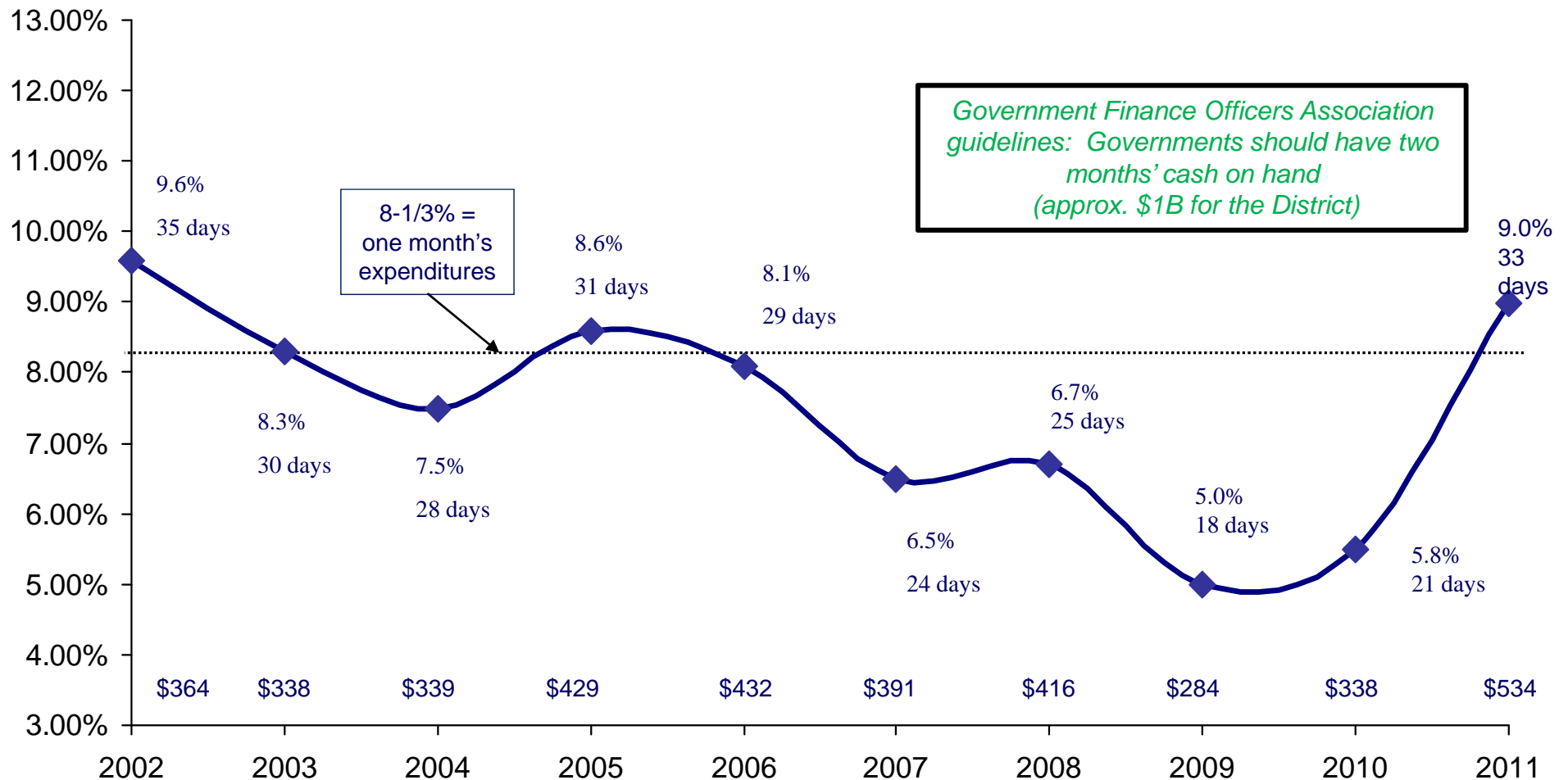


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Total Working Capital

Unassigned Fund Balance, Congressionally Mandated Emergency/Contingency Reserves and Locally Mandated Reserves as % of Next Year's Budgetary Expenditures

(\$ in millions) (# days spending in reserves)





District of Columbia

Current Debt Cap Position

Expected future Borrowing will remain Under Debt Cap

Summary of Debt Cap Position as of December 31, 2011

(\$ in millions)

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Total Debt Service on Existing & Planned Tax Supported Debt	\$ 647.0	\$ 704.5	\$ 754.2	\$ 778.0	\$ 803.3	\$ 829.4
General Fund Expenditures	\$ 6,480.3	\$ 6,546.8	\$ 6,718.7	\$ 6,868.5	\$ 7,040.2	\$ 7,216.2
Ratio of Debt Service to Expenditures	9.98%	10.76%	11.22%	11.33%	11.41%	11.49%



District of Columbia

FY 2012 Financings

■ **Recent Completed Transactions**

- \$820 million FY 2012 TRANS
- \$241.7 million Income Tax Secured SIFMA Index (variable rate) Bonds, (Refunding of G.O. Bonds)
- \$38.7 million TIF Bonds (City Market at O Street), Series 2011
- \$400.7 million new-money Income Tax Secured Bonds, Series 2011F-G

■ **Anticipated Transactions***

- Housing Production Trust Fund (HPTF) Bonds - \$40.0 million
- TIF Refunding of 2002 Gallery Place Bonds - \$60.0 million
- Energy Conservation Bonds – Structure and Amount TBD
- G.O. Refunding of Series 2004A and 2005A Bonds – Likely in the range of \$300 million

* Preliminary/Subject to Change. Refundings subject to market conditions.